THE PACIFIC RAILWAY DEBTS.

The thirty years' term of the original loan of the United States to the Pacific Railroad has rolled round, there matured January 16, 1895, the first installment of bonds issued to the Central Pacific Railroad Company for the first piece of road built and accepted under the act; during the years 1896, '97, '98 and '99, chiefly in 1898, other installments fall due, aggregating in all $64,623,512.* These six per cent bonds are a full obligation of the United States, as between the holders and the maker; there is nothing for the Treasury to do, but to pay them, or to extend them on acceptable terms. Since they are security for circulating bank notes the latter course can easily be followed, at not more than three nor less than two per cent, at the convenience of the Treasury, and these need give us no further concern here.

But as between the maker of these subsidy bonds and the companies who first received them they constitute a debt nominally due and payable by the latter, or their successors, together with arrearages of interest also advanced, and only in part reimbursed by transportation services, or provided by sinking fund accumulations. The amount of this arrearage may now be closely approximated, and it is evident that, dealing with all the debtor companies together, it will fall not far short of the principal sums, or about $125,000,000 in all, of which fully $70,000,000 will be for the Central Pacific and $55,000,000 for the Union. The exact figures at any given date cannot be stated with precision on account of the mass of counter-credits for services delayed, disputed or otherwise in suspense. Indeed, certain judgments for large aggregate amounts, not subject to application on these debts,

* The repayments by services in the twenty-five years of through operation equal one-fourth only of the interest disbursements or about one and a half per cent per annum on the debt.

CONDENSED STATEMENT, *showing bonds issued in aid of Pacific Railroad Companies and the amounts reimbursed thereon as certified by the United States Treasurer at close of business, November 30, 1894.*

	UNION PACIFIC (Inc. Kansas and Central Branch).		CENTRAL PACIFIC (Inc. Western).	
Principal,		$35,139,512		$27,855,680
Interest paid by United States,		55,829,069		43,505,552
Total disbursed,		$90,968,581		$71,361,232
Reimbursements:				
By transportation services,	$24,525,032		$7,208,406	
By cash per cent of net earnings,	445,335		658,283	
		24,970,367		7,866,689
Apparent balance of debt,		$65,998,214		$63,494,543
Deduct Sinking Fund in United States Treasury,		14,311,157		5,707,205
Apparent debt unprovided for,		$51,687,057		$57,787,338

The Sioux City and Pacific, 100 miles (leased by the Chicago and Northwestern), $1,600,000 bonds may be ignored. The Central Branch Company is controlled by stock ownership, but road has been leased to the Missouri Pacific Company. Forecasting the further interest payments, with deductions for services and sinking funds to maturity, the balance may be estimated at $55,000,000 for the Union, and $70,000,000 for the Central. The latter will, however, have sinking funds for prior lien bonds to an amount approximating $15,000,000.

are nevertheless withheld as offsets to this accruing claim of the government.

By the Act of 1862 construed literally these advances were secured by a "first mortgage" (subsequently in 1864 waived) upon the condition that "said company shall pay said bonds at maturity" and that on a failure or refusal to redeem said bonds or any part of them, when required to do so, the United States might take possession of the aided property for its own use and benefit. There are other complicated provisions for partial current payments for service and in one-twentieth of the "net earnings." It is evident that these cautionary clauses were properly introduced to secure something beyond and more important than the return of the face value of the bonds and interest at a given date, viz., the early completion of the road through, or, that failing, the control of the corpus, and if need be, its transfer to other hands. Although following the formula of indentures to secure the return of money, the acts and successive amendments, their titles and the whole scope and purpose was rather to ensure the doing of certain work without delay, the creation of the road, its use, enjoyment and prestige rather than the customary loan of money for hire. A generation has passed since the contract was made, but it must be construed with the lights then before the parties.

This view is borne out by reference to the emergency of the time and the antecedents in military and postal transportation. The supply of Rocky Mountain forts, and a scanty overland mail had cost as much as $7,200,000 a year, while animal power was employed and while the government was insurer of the freight. It is fair to assume that the expectation of the parties was that the government patronage would itself so expand after completion of the roads, as to cancel the current interest, $3,900,000 per annum, and that the subsequent participation in the net earnings, in the course of the eighteen or twenty years allotted, would be so considerable as to liquidate the principal sums, or nearly so. That both

sources failed to do so much is in good part the voluntary doing of the government and the misfortune of the companies. It is difficult to reconcile these facts with the theory of a right of foreclosure long after completion, merely to collect a residue of subordinate debt.

The legal status of this debt is that of a book account, the security for which is, or rather was, a statutory lien on the aided portions of the road and the corresponding equipment. Even if recourse to foreclosure could fairly be claimed, or were sustained by the higher courts, it can readily be shown to be a barren remedy. As a punishment aimed at transgressors it would miss the mark and injure only innocent third parties who are already sufficiently victims. Except for the decorum and its terror to underlying claims, the second mortgage theory might as well be abandoned and all thought of proceeding on that line. Of the three courses open to Congress, but one has any serious claim to attention. These three courses are:

I. Relinquishment of the debt, except as repaid by current services.

II. Attempted foreclosure and possession, followed by transfer to new owners or lessees, or by operation for government account.

III. Extension of the debt at such rate of interest as the earnings will justify after providing for necessary prior fixed charges.

First.—Pleas have been made before Congressional committees, not without ingenuity, to have these debts waived and expunged, or rather commuted into a perpetual obligation to carry mails, troops and supplies. Had this enterprise failed to pay its way, as was expected, or had its promoters paid every demand except only profits to the shareholders, there are many plausible and equitable reasons why a magnanimous course would be opportune. Nobody, however, has had the hardihood to formulate such a Bill or Report. On the other hand, there are more grave reasons

why the claim should be treated as a valid debt, to be repaid to the last dollar. It will never do to set up the Treasury as a target to be aimed at on the principle of condoning failures. The Nicaragua Canal Company in some shape will be the next applicant for Treasury assistance, and no worse precedent (for its success) could be devised than to condone the debt to the Pacific Railroad Companies. It would be preferable to let it stand though it were indeed a hopelessly "bad debt."

Second.—Nor is the expediency of resort to foreclosure any more hopeful. As already stated, the right of the government to take possession under this statutory mortgage is not clear. Beyond doubt its right to do so was in full force until the completion of the roads was a fact or in plain sight. With the junction of the rails in May, 1869, that right lapsed forever, except in the improbable contingency of an abandonment or neglect (and then only to supply the omission), an event not likely to arrive unless by the complicity of the government. Of course, it is within the sovereign power to take forcible possession of this railroad; subject, however, to the obligation to compensation for private property taken; but that is a general power not derivable under its statutory claim. The astute Senators who framed and supported the Thurman Act of 1878, willing as they were to tie the hands of the companies, reached the conclusion that their power over them was not absolute, but only forbade dividends to the stock until after twenty-five per cent of the net earnings had been applied to the subsidy debt. The Supreme Court, by a bare majority, adjudged that Congress had the power over the income of the companies—not by reason of this statutory pledge, nor yet by virtue of the reservation, in words, of the right "to alter, amend or repeal," but by the absence of power in one legislature to bind its successors; which right, be it observed, is limited where contract or vested rights have intervened to what is just and reasonable as between the parties. This

latter is a function for the courts, and not for Congress, to declare.*

The practical situation is rather complicated than cleared by the assertion of this right of foreclosure. To begin with, the prior liens, equal in amount to the face of the subsidy, must be assumed, and either paid off or extended. Suppose they were to make common cause with the stockholders and claim the road itself, or demand their money, they could, with the same cash, turn round and parallel every essential portion of aided road, and ally themselves with branches and terminal lines on which the United States has no lien. No one knows this advantage better than the directors of these companies. Quite recently a new Pacific line (the Great Northern, the fifth on United States territory) has been completed to Puget Sound at a cost of one-third that of the original Union-Central line. Furthermore, who are to be the bidders at a sale, outside of the first mortgage holders and the government? Much as the managers of railways quarrel among themselves for a division of freight money, there is too much *esprit du corps* among them for any responsible company to appear as a competitive bidder. It would, moreover, be in danger of speedy and condign punishment from the owners of these indispensable branches, feeders, terminal facilities and tributary ocean steam lines. No one can afford to own the piece of railroad laid across these dry deserts and high mountains and which does not also have its own entrance to either Council Bluffs, Kansas City, Denver or San Francisco. The nation is bound by honor and contract to respect the claim of outsiders to the extent of $25,000 per mile for the eastern portion of the main line, and about $35,000 per mile for the western portion.

Foreclosure is not only no legal solution; it is no practical solution. It is the forerunner of mischief only. In his volume, giving a compact history of the work and the tribulations, entitled the "Union Pacific Railway," Mr. John P.

* See U. S. Reports on Interest case and Thurman Act.

Davis, though accepting the right of foreclosure without question, in a concluding chapter as to its future sums up the equities of the case very fairly and ably, and abundantly disposes of the expediency of it by showing the multiplied difficulties, perplexities and expense of an attempt to operate the 2494 miles of road on which its claims rest. As matters now stand, it requires, to manage this claim, a set of government directors, a committee of each House of Congress, a special bureau with accountants and engineer in the department, and at intervals a special commission to make an independent report. If the government owned the roads, its duties would be still more numerous and embarrassing.

One may have much sympathy with the people of California—a hundred thousand of whom petition to have the decision take this course. The evils they so eloquently portray, however, are those which other parts of the country share with them, to a greater or less extent. They see other communities enjoying the benefits of a sharp competition in rail-carriage, in through freights carried at bare train expenses, while the burden of fixed charges and administration is left to be sustained by local traffic; that is to say, a portion of the traffic of railroads (like the business of the Post-office, which tolerates no competitor) is done at less than the service costs; it is deemed better to have it, and keep the larger force of men and rolling stock employed, than to lose it. The people of California would like the government to provide them with this cheap carriage for their interior freights on the same basis as the overland business, which they now enjoy to the full, since private capital is unwilling to do so. The fares and freights in California itself are not high nor unreasonable, tried by any standard. This is the same grievance, cropping up in a hundred other places, which the Interstate Commerce Commission was organized to grapple with, but which it can do but little to alleviate.

The suggestion emanating from the same State that the

Attorney-General should bring suit against the original directors of the railway companies, to recover large sums wrongfully obtained, is not a fortunate one. As a means of reimbursing these maturing claims, it is inadequate. This course was, in fact, tried years ago, as a sequel of the Credit Mobilier scandal, before the Circuit Court at Hartford, when the court ruled that it was for the Union Pacific stockholders, not the government, to move, as they were the parties wronged, if any. In like manner it is the stockholders of the Central Pacific (now for the most part in Europe) who are at liberty to bring suit, if anybody, for restitution of plunder, under this exceptional California statute made to curb the dishonesty of mining company officials, but easily evaded as to all. Will the stockholders do so? No; for the reason that it would be throwing away good money after bad; and, besides, they have to fear the possible hostility of the same men, or their successors, intrenched in power, and able to injure even if dislodged. It is easy for the essayist, the lawyer or the legislator, unfamiliar with the mysteries of Wall street and railroad finance and management, to make charges, frame bills and indictments, but not so the practical work of negotiation and redress.

An illustration (one of many drawn from the checkered history of the Union Pacific Company) may serve to show how difficult is the situation in this subdued railroad warfare, and how embarrassing at times is the choice of courses, with the best disposition to follow the ethically right. While the Union Pacific road was under construction, and J. Gould and J. Fisk were in full control of the Erie, the latter made an attempt to "break into" the Union Pacific Company, the associate supposed to be in the background. Some years later, after they had been ousted from the Erie, Gould had acquired the Missouri Pacific, of which the Kansas Pacific (subsidized) was the natural prolongation toward Denver and the Pacific. By the Act of Congress the Union Company was required to operate the main line with the

other eastern branches "as one continuous line." It claimed that to charge the local rate from the Cheyenne Junction, midway of its length (which rate was, in many cases, higher than the rate throughout the entire Union Pacific line) was a sufficient compliance with the act. Suits were carried from court to court, but in the meantime the Kansas road was being starved, its development cramped. Its stock went down to near zero and the first mortgages to 50. This was Gould's opportunity, which, with characteristic nimbleness and secrecy, he improved. He acquired enough stock of the Union to become a director and all of the Kansas that he could buy, in open market or privately. He was thus on both sides of the trade and informed of the counsels and plans of both parties. When it became imminent that the Supreme Court would have to decide in favor of the Kansas Company, he suggested a consolidation of the two. The other directors demurred—for obvious reasons—whereupon he replied in effect: "Very well, gentlemen; as you like; but if you refuse the Missouri and Kansas Companies will build from Denver to Salt Lake and the Central terminus at Ogden, and then where will you be?" This alternative would have been a proper and feasible thing to do. His views prevailed and the result was an exchange of share for share of stock, the assumption of the bonded and floating debt of the impoverished partner company, payment of deferred interest; in all a profit to the shrewd speculator and his friends of not less than ten millions, and perhaps nearer twenty.

There would indeed be poetic justice, and also justice of the law and constitution, if some of these extorted gains could somehow be recovered for the unfortunate small stockholders, who are the parties really defrauded. The government, as we shall presently see, may recover its entire claim without allowance for equitable set-off, but how and whence are the confiding shareholders to get back their money when a whole century's earnings are to be pledged to others in

advance of them? True, the Attorney-General has moved against the Stanford estate, ostensibly on behalf of this maturing claim of the government, but it is likely that this was intended and understood by counsel more to "stay waste" of the assets than in the hope of securing any part to the Treasury, and in this way the prosecution is a real service to the Stanford University, rather than an injury, as is sometimes alleged. Had all the great fortunes made out of this government subsidy experiment been disposed of for objects as worthy, and placed in as enlightened and competent hands as this one, Congress and the public might indeed overlook or condone the irregularity of their acquisition.

There is but one honorable way in which approximate justice may be done to all parties concerned in this Pacific Railroad venture, but, alas! it is not free from difficulties. If, notwithstanding the objections to government ownership, it is decided to take these defaulting companies' property, the only fair way is to authorize the Secretary of the Interior to purchase the stock of both, to be delivered within ninety days, at say $50 per share, at which rate it would secure nearly all the $68,000,000 of Central, and $60,000,000 of Union, at a cost under $64,000,000. This would double its original investment, but by careful nursing it might prove a judicious purchase, since it would carry control of four or five times the original aided mileage. This policy need not be urged on behalf of the shareholders, but on the ground of fairness. It is one of the curses of corporate management that out of it the managing directors can enrich themselves, while their confiding fellow-shareholders are impoverished. In this respect the Pacific Company officials have been conspicuous offenders. If the legislative favor is to be invoked on behalf of anybody besides the local patrons of the road, it may with equal reason be asked on behalf of defrauded and comparatively helpless investors in the stock, many of them women and orphans dependent upon the expected income, and none the less deserving because living abroad; they

trusted to the honor and dignity of an American enterprise in which the government itself was chief creditor.

Third.—The government would seem to be shut up to the third remedy. Compulsory or pursuing legislation is at best futile; the sovereign authority cannot be resorted to except as an extraordinary or war power; assignment of the stockholders' rights is hardly practicable, because it is but a first step in an untried policy looking far beyond the recovery of the debts. There remains the alternative of mutual accommodation. Valuable as are these lines of railway with their affiliated connections, in the hands of their owners; the cooperation of stockholders is necessary to meet these onerous claims. The margin between solvency and insolvency is too narrow to tolerate clashing or forcible measures. The nation being a large customer of the roads is enabled to get some current return upon its outlay, the equivalent of a low rate of interest. By simply withholding the compensation for transport, it gets, taking a series of years together, a rate of one and a half per cent on the new debt (or three per cent on the old); or taking the corporations separately about two per cent from the eastern and one per cent from the western, the disparity being caused by the double volume of public service accruing to the Union Company. An insurrection, or foreign war, might carry the yield much higher. In view of the equitable considerations above named, and the fact that whatever the amounts demanded, and time granted, the payments must be a tax upon the local traffic, is not this enough and a fair basis for commutation of interest?

How about the repayment of the principal? Some inducement should be provided for its early liquidation. The maturity of a fraction of the subsidy bonds does not alter the moral, nor seriously the legal, status of the parties. It is the duty of the nation to help the credit of its debtor where its own claims are not prejudiced thereby. It can grant an extension of time, a long time, without sacrifice, and as it can do nothing practicable but that, that should be done

willingly and helpfully. This extension need not be as great as some of the bills before Congress provide, viz., a fixed period of fifty or a hundred years, all of which is to be consumed in the process; but ought to be a maximum period of a hundred years with an inducement to shorten the time.

Mr. Charles Francis Adams, while president of the Union Pacific Railway Company, not long ago, stated to a committee of Congress that he expected to repay the government advances at maturity. He probably did not refer to the arrears of interest, but to the principal only. In less than two years his company was pledging all its treasury assets (a hundred millions face value), as security for a loan of twenty millions to meet floating debt, and soon afterward passed into the hands of receivers as a bad insolvent. In finance the optimist, however delightful as a man, is a great danger to himself and especially to his friends—witness the examples of M. de Lesseps, the Barings abroad, and Messrs. Jay Cooke, Henry Villard and others at home. The mistake arose in overestimating these treasury assets, stocks and bonds on tributary lines.

The conduct of the negotiation has passed from the president of the company to a tripartite combination of the government directors and a reorganization committee of bondholders or the stockholding directors on the one side, with the two committees of Congress and the Executive on the side of the government. No final settlement is likely to be reached before the new Congress convenes, both because of want of time to thrash out so complicated a question, and because a majority of each House lacks confidence in the recommendations of its committee. It will take such a body a long time to discover for itself the controlling elements of this settlement, since it will not give credence to its own organs, nor to the advocates of the railroad companies. These elements are:

(*a*) The efficient maintenance of the road as a military and commercial route.

(*b*) The government demands must be drawn from local traffic, the competitive through traffic yielding little beyond train expenses.

(*c*) Some prospect of moderate dividends, in the near future, should be held out to stockholders; otherwise the management will be poor and the stock a foot-ball of Wall street.

(*d*) The government claim may properly be waived in favor of the depressed industries along these interior lines, and in favor of certain desirable permanent improvements for the general public benefit.

(*e*) The earning power of the properties cannot be expected to improve much in the next thirty years.

It requires no demonstration to prove that large systems of railroads cannot permanently be operated by receiverships under the order of courts, nor that the proper custodians of such property are the owners. A railroad at best is a very complicated organization, and the situation of these aided roads is full of special detail and complications. To ensure efficient repairs and renewals, to secure money, materials and service at the best rates, there must be something like permanence and self-interest in the management. The government, not less than the minor patrons, is interested in the safe and certain transmission of mails, troops and supplies far beyond its interest in the early liquidation of this debt. The Oregon branch of the Central Pacific is now more necessary as a military line than is any other, except the Southern Pacific along the Mexican frontier, and neither of these roads is likely to be paralleled for a century. Both portions of the aided lines have become integrate parts of vast complex systems nearly 10,000 miles in extent, with their own steamship lines, hotels, coal mines, etc. Disentanglement has become well-nigh impossible. Joint ownership is less difficult.

The Union Pacific has for years been estopped from paying dividends. This has not benefited the United States a

particle; it was a restraint applied by Congress years too late. The result might have been foreseen; high rentals, including guaranteed dividends of branch and tributary lines, wholesale construction of new lines with guarantees of interest, or "constructive mileage" allowances. The profits have gone to insiders, while the entrapped investors have remained shorn just the same. The Oregon Short Line, the Northern Utah and Montana, the Denver and Gulf are specimens of the absurd competition with neighbor companies for territorial control. The receivership will enable the insolvent to relieve himself of the excessive load of some of these burdensome leases, guarantees and preferences; but others of them will have to be retained as a charge upon the main line for many years.

The Reorganization Committee of the crippled Union Pacific bondholders, in which the government is amply represented, is reported to favor the very customary device in such cases of a "blanket mortgage," covering main line branches, and Treasury assets, of an amount large enough to cover all outstanding bonded debt, estimated at $140,000,000, of which it is proposed to allot nearly one-half to the United States in lieu of its existing claim. The rate of interest on the latter is to be about two and a half per cent, and on the other portions of the issue four and five, according to the priority and merit of their present holdings. If the stockholders deliberately choose thus to advance the lien of the government to that of co-equality with the other bondholders and to postpone their hopes of returns for a century, it is an act of uncalled-for self-sacrifice. No one will complain, unless the first mortgage holders refuse to accept the security thus diluted. To carry out such a plan the government must step in as guarantor that the entire loan shall be taken. Who else is to advance the money to non-assenting bondholders? As a dilatory device it may answer, but not as a settlement. It does not require the prophetic gift to foresee that this is practically an irredeemable issue. With the first

unfavorable year's business there would be a default, and the settlement would all have to be gone over again, with the government in a different situation—that of half owner. Besides, it fixes the payment at the full term of fifty or more years, there being no provision for the reimbursement for the Treasury bonds earlier than those in private hands. Again the government has no right to have its security improved, except for valuable consideration. The mere extension of time for payment is not an equivalent; it is not a forbearance—it is a necessity—of the creditor. Far better would it be to make some allowance of interest on principal in consideration of the earliest practicable payment consistent with the stability of the roadway and structures and the liberation of the local customers.

The Central Pacific Company seems to have escaped the vigilance of Congress, as it was not included in the estoppel of dividends. Like the Union it paid as high as six per cent dividends for a few years (this was the period during which the stock was unloaded on the public), then suspended altogether, after which it resumed at the rate of two per cent, until the financial stringency of 1893. Inasmuch as a third part of its mileage is non-aided, and this the most profitable in operation, there was no injustice in this, as moderate contributions were simultaneously made to first mortgage sinking funds, and the Thurman Act complied with. For the future, however, it would be well to provide that neither of these three corporations should be allowed to divide as profits more than two per cent per annum, either on their own shares or of any controlled or leased line, on the existing basis of stock to mileage, and not in any case unless actually earned, until at least one semi-annual installment of the government claim had been anticipated, or unless some equivalent concession had been made to the non-competitive local shippers and passengers.

None of the bills heretofore reported to Congress contains any provision for waiving the claim of the government on

behalf of the settlers and industries tied up to this aided line and unable to use any other. This is a thing worth guarding. In like manner, the public claim may be waived, or rather its acceleration may be waived, in favor of two important improvements at the California end of the road, which obviously must remain in abeyance until this settlement is effected or provided for. One of them is a ten-mile tunnel under the crest of the Sierra Nevada range, thus obviating some 2500 feet of elevation, and avoiding nearly all the snow-galleries and sheds, with their risks, inconvenience and expense. The other is a bridge across the Straits of Carquinez, to replace the ferry transfer. The cost of these may be roughly estimated at $10,000,000 and $2,500,000 respectively. There should be no increase of stock for either.

With the supporting co-operation of Congress the outstanding first mortgage bonds of main line and essential branches may be refunded into new consolidated bonds, bearing four per cent interest, secured by prior liens on the whole property. This authority ought to be cheerfully granted, for without it the companies may not be able to refund at less than five. Here is a saving, not at the expense of the government, nor the patrons, nor the stockholders; it is a sort of relinquishment of interest on the part of capitalists for increased security and immunity, which all concerned should willingly accept. To whose benefit should this saving of two per cent on say $120,000,000 of underlying mortgages inure; to the companies, or to the government? Unhesitatingly, to neither exclusively, but to both in common. Here then is a source whence $2,400,000 may be drawn yearly, and half that much at least can be spared at once for appliance on the capital of the subsidy debt.

CONDENSED TABLE, *showing the capital, bonded debts, sinking funds, of the Union and Central Pacific Railroad Companies approximately as of recent dates.*

UNION PACIFIC RAILWAY COMPANY.

(Including Kansas Pacific, but excluding Central Branch.)

			OUTSTANDING.
CAPITAL STOCK, main line, 1827 miles			$60,691,050
BONDED DEBT:			
First mortgage, main line (no sinking fund)	$27,229,000		
First mortgage, Kansas Pacific and Denver and Pacific	12,209,000		
Total having undisputed priority over United States lien		$39,438,000	
Kansas Pacific, on aided 395, and non-aided and land grant	$11,724,000		
Union Pacific collateral trust	11,224,000		
Union Pacific sundry earlier trust bonds	12,033,000		
Union Pacific sundry mortgage bonds on portions	4,559,635		
Total liens subordinate to United States claim		$39,540,635	
Total funded debt Union Pacific roads proper			$78,978,635
DEDUCT:			
Sinking funds, estimated	$5,000,000		
Land, cash and funds	10,807,357		
			15,807,357
Bonded debt, exclusive of United States subsidy			$63,171,278
UNITED STATES AID BONDS:			
Principal Union and Kansas Pacific		$33,539,512	
Add interest disbursed to Nov. 30, 1894		55,829,069	

Total principal and interest advanced	$89,368,581	
Less repaid by services and United States sinking fund, etc., as per Treasury ledgers	34,281,518	
Apparent net debt to the United States		$55,087,063
Total debt net for account of its own lines		$118,258,341

The bulk of this debt bears six per cent interest, and the average is near six.

The present fixed charge would seem to be about $8,000,000 for interest exclusive of rentals, guarantees and sinking fund requirements, $1,250,000 per annum, largely on branch lines and feeders. Besides the 1827 miles of its own the Union Pacific controls by stocks, bonds, leases, 5868 miles, on account of which it incurs large obligations. Many of these may be scaled down.

CENTRAL PACIFIC RAILROAD COMPANY.

(Including Western Pacific.)

	OUTSTANDING.
CAPITAL STOCK, of which $724,500 is held in Treasury in trust	$68,000,000
BONDED DEBT:	
First mortgage, main line and branches, 1360 miles	$45,038,000
Land bonds	2,837,000
Total having undisputed priority over United States lien	$47,875,000
Fines of 1939 (issued since lease of road) .	11,000,000
Total bonded debt Central Pacific road proper	$58,875,000
DEDUCT: Company sinking funds, exclusive of land, cash and notes, $500,000	10,698,702
Net balance company bonded debt . . .	$48,176,298

UNITED STATES AID BONDS:		
Central Pacific and Western Pacific principal	$27,885,680	
Interest disbursed to 1894	42,669,882	
Total principal and interest advanced	$70,555,562	
Less repaid by services, cash and sinking fund	13,671,558	
Apparent net balance, December 31, 1893		$56,884,004
Total net debt for account of its own lines		$105,060,302

The Central Pacific Railroad is leased to the Southern Pacific Company, which agrees to pay interest and fixed charges. Net earnings were sufficient to meet charges but not dividends in 1893. For 1894 the financial condition is not improved.

The original charter conferred the power of consolidation on these four or five subsidized corporations, after completion, and it would have been wise policy to have merged the two main companies years ago, and thus have saved much friction between them, and avoided the consequent building of superfluous lines. The Union Pacific has had the misfortune of internal dissensions almost from the first, and has not always been judiciously financiered; its burdens are unduly swollen, and its field of operations open to assaults of its rivals from which it suffers continually. The lease of the Central Pacific to the Southern should be canceled, and the Union take the place of the Southern. If the stockholders of both companies would but take the trouble to register their shares in their own names, and authorize an equitable consolidation, terms could be found and this consummation promptly reached. The Central Pacific managers (who are now only small stockholders) have been stubborn for their own advantage, and have thus far presented a united front. Perhaps the two cannot be dealt with by legislation on exactly the same footing, but in some way a sort of coercion could be put on one or the other, to promote a consolidation which would benefit the community at large.

For the sake of simplicity it would be preferable to have the amount of new indebtedness, when ascertained, cut up into one hundred annual (or preferably two hundred semi-annual) installments of the principal sum, one of which shall become payable each six months, together with the interest on all deferred payments. It is possible, of course, to add the whole interest at once to the principal and then divide this into two hundred equal payments; but this only excites distrust, and nearly the same uniformity of requirements can be reached by a graded rate of interest commencing at one and one-half per cent for the first ten years, with a gradual increase toward six per cent for the last decennium, with a proviso that, in the event of unlooked-for prosperity, the remainder may be canceled at any time at the then prevailing rate. This would create a powerful inducement to extinguish the government claim at the earliest rather than at the latest date. The practical working of this plan may be seen from the subjoined statement, for the two companies combined (of which about sixty per cent would be borne by the Union and forty by the Central), whereby, if the debt were anticipated in the forty-ninth year, the average rate of interest paid would be 2.2 per cent; if on the seventy-fourth year, 3.1 per cent; and if allowed to run to maturity, 3.3 per cent.

It would not be difficult to frame a much-needed section or two in amendment of the pending bills which should secure these salutary ends: (1) To enhance the borrowing power of the debtors; (2) to provide for an anticipation of the subsidy debt in advance of the prior liens; (3) to promote a consolidation, and at the same time dispense with the cumbersome supervision of directors, bureau and commission; (4) to shield the local traffic from undue oppression; (5) to encourage the construction of certain great permanent structures, and to insure the maintenance of a superior roadway; (6) to prohibit payment of dividends by lessor or lessee companies without the consent of the Secretary of the

Interior, or in excess of two per centum per annum, so long as one-half of the obligations delivered to the United States, together with the interest accrued thereon, remain unredeemed.

STATEMENT *showing the operation of an annual payment of one per cent of a debt of $125,000,000, with a progressive rate of interest on deferred payments, so as to require approximately uniform semi-annual installments; and also afford an inducement to the debtor to cancel at the earliest practicable date.*

Rate of Interest.					*Total*	*Outstanding*
Decennium.		*Per cent.*	*Year.*	*Interest.*	*Annually.*	*Principal.*
1st to	10th	1	1st	$1,250,000	$2,500,000	$125,000,000
11th to	20th	1½	11th	1,737,000	2,987,000	112,500,000
21st to	30th	2	21st	2,000,000	3,250,000	109,000,000
31st to	40th	2½	31st	2,187,500	3,437,500	87,500,000
41st to	50th	3	41st	2,250,000	3,500,000	75,000,000
51st to	60th	3½	51st	2,187,500	3,437,500	62,500,000
61st to	70th	4	61st	2,000,000	3,250,000	50,000,000
71st to	80th	4½	71st	1,687,500	2,937,500	37,500,000
81st to	90th	5	81st	1,250,000	2,500,000	25,000,000
91st to	100th	6	91st	750,000	2,000,000	12,500,000

The amount of interest and the total annual requirements for the intervening years would be less by sums varying between $12,500 in the second year to $75,000 in the ninety-first year, and are readily ascertainable.

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